

A Few FY17 Accomplishments



Worked with the 85th Texas Legislature for continued funding for state employee pensions at the FY16-17 levels, resulting in continued benefits without reductions.



Secured state funding and managed expenses so that Texas Employees Group Benefits Program (GBP) health plans have the lowest percentage premium increase in eight years.



Netted \$3 billion, or 12.11%, in investment earnings for the ERS Retirement Trust Fund.



Implemented new administrators for the prescription drug programs and HealthSelect plans, with \$2.2 billion in expected savings over the course of the six-year contracts, while maintaining high levels of care and service.



Redesigned ERS' public website for a better user experience.



Completed the pension experience study, reassessing ERS' obligations and expectations to better inform decisions about the retirement plans and investment of the Trust.



Conducted investment asset allocation study and revised the assumed rate of return to more accurately reflect market conditions.

Achieved the following in the Texa\$averSM 401(k) / 457 Program:



- successfully transitioned Wells Fargo Dow Jones Target Date Fund participants to Lifepath[®] Portfolio Index Funds F,
- grew to more than \$2.86 billion in total assets in all accounts,
- added \$26.6 million to the 401(k) plan, including in-plan Roth IRA rollovers and
- reached Roth enrollment level of more than 6,600, with more than \$34 million in assets.



Added no-copay feature for HealthSelect of Texas virtual visits, allowing convenient access to doctors at no cost to participants.



Shortened on-hold wait times for callers to ERS' customer service contact center with a "virtual callback" feature.



Implemented many of the Sunset Advisory Commission's recommendations and continued work on others.



ERS is helping health plan participants and the state maximize their health care dollars, with the lowest annual health insurance premium increase in eight years. In addition, HealthSelect of Texas and the HMOs have not had increases in copays, coinsurance or deductibles since 2011, except for an FY18 increase in out-of-pocket costs for out-of-network freestanding emergency rooms. These relatively low increases are due to a combination of state funding and spending from ERS' insurance contingency fund, along with vigilant cost management and strong negotiations with third-party administrators.

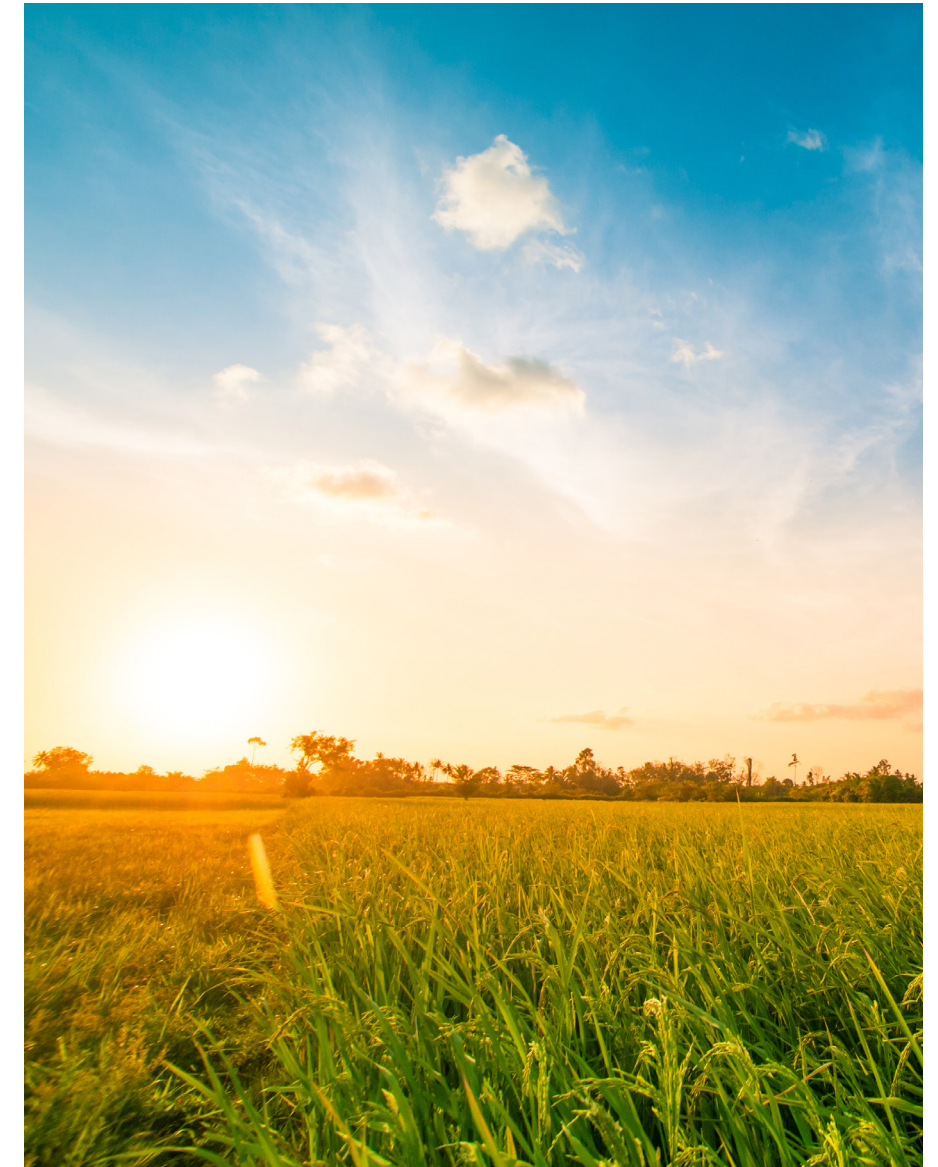


HealthSelect of Texas Premium Increases Year over Year

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
% Increase	7.2	6.1	7.3	7.0	6.9	7.2	7.1	0.75



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FISCAL YEAR 2017

AT A GLANCE



Retirement

ERS provides retirement benefits for state employees and elected officials (ERS Retirement Trust Fund), law enforcement and custodial officers (LECOSRF), and judges (JRS 1 and JRS 2). They are designed to provide a stable retirement benefit, the majority of which is paid from investment earnings at a low cost to the state.

State contributions to the Fund maintained at 9.5% of payroll (less than 1% of the state's budget); employees pay 9.5% of their salaries and state agencies remained at their 0.5% contribution.

- **\$27.5 billion ERS Trust Fund** (all funds)
- **12.11%** net of fees one-year rate-of-return on investments
- **142,195 contributing members** (ERS – 141,629; LECOSRF – 38,206*; JRS 1 – 9; JRS 2 – 557)
- **112,350 non-contributing members** (ERS – 112,192; LECOSRF – 17,100*; JRS 1 – 0; JRS 2 – 158)
- **108,263 retirees and beneficiaries** (ERS – 107,530; LECOSRF – 12,248*; JRS 1 – 355; JRS 2 – 378)
- **\$2.3 billion in retirement payments annually** (for all plans)
- **70.1% ERS Trust funded ratio**
- **\$11.3 billion ERS Trust unfunded liability**
- **ERS Trust Fund is projected to deplete in 2084, without additional contributions or benefit reductions**

*LECOSRF members are included in the ERS total.

Retirement Contribution Rates

	Fiscal Year 2017	Fiscal Year 2018
ERS		
State	9.5%	9.5%
Agency	0.5%	0.5%
Employee	9.5%	9.5%
Total	19.5%	19.5%
LECOSRF*		
State**	0.5%	0.5%
Employee	0.5%	0.5%
Total	1.0%	1.0%
Total Contribution	2.2%	2.1%
JRS 2		
State	15.663%	15.663%
Employee***	7.50%	7.50%
Total	23.163%	23.163%

*LECOSRF-eligible employees also contribute to the ERS Fund since LECOSRF is a supplement. These employees receive about 80% of their retirement benefit from the ERS Fund.

**LECOSRF also receives a dedicated portion of criminal court cost revenue. In the past, this amount has been expressed as a percent of payroll contribution rate, but going forward it is expected to decline as a percent of payroll and is excluded from these numbers.

***For JRS 2, this amount reflects the employee contribution of those members actively contributing. After 20 years of service (or reaching Rule of 70 and serving 12 years as an appellate court judge), JRS 2-eligible employees can either stop contributing or they can continue to contribute and earn additional service. Since not all members choose to do so, the effective contribution rate for FY18 is 7.43% and for FY16 was 7.44%.

Investments

ERS added \$3 billion in investment earnings to the ERS Retirement Trust Fund. The investment portfolio of the Fund had a total value of \$27.5 billion as of August 31, 2017. The annual gross rate-of-return was 12.15% (12.11% net).

Two studies critical to investment of the Fund were finalized near the end of FY17:

- consulting pension actuaries Gabriel, Roeder, Smith & Company presented findings from the *Pension Experience Study* and
- the Investments Division completed its *Asset Allocation Study*.

Based on these studies and other information, the ERS Board of Trustees approved a lower assumed rate of return, from 8% to 7.5%, and a new targeted investment asset mix. The new assumed rate of return sets a more realistic earnings benchmark, based on investment return expectations for the overall economy and financial markets. While the fund's 30-year average gross rate of return continues to exceed the 8% assumed rate, shorter-term averages are falling short of that goal. Public pension systems across the United States are making similar changes to their assumed rates.

The most significant and immediate effect of the new assumed rate is to increase both the unfunded liability and the funding period for the Fund. The unfunded liability is now \$11.3 billion, with an infinite funding period. These changes mean that the ERS retirement plans will need increased contributions, reduced benefits or both to secure pensions for current and future retirees.

ERS Investment Performance – Period ending August 31, 2017

Period	20-Year	10-Year	5-Year	3-Year	1-Year
Annualized Return (Net)*	6.41%	5.54%	8.34%	5.84%	12.11%
Annualized Return (Gross)	6.49%	5.67%	8.43%	5.88%	12.15%

*The actuarial assumed rate of return of 7.5% is based on net return.

The new asset allocation was adopted by the ERS Board of Trustees to provide a risk-adjusted return that will meet the best interests of the Fund and its beneficiaries.

In addition to the two studies, ERS staff maintained disciplined investing and aggressively negotiated private market fees. As a result of the latter, ERS has realized savings of \$125 million over the last decade.

95% About 95% of state retirees continue to live in Texas, providing economic support to the state.

Insurance

The GBP provides coverage for health, life, dental, vision, accidental death & dismemberment (AD&D) and, through the Texas Income Protection PlanSM, short-term and long-term disability.

- There are 554,948 participants in all GBP plans (230,199 employees, 117,880 retirees, 206,146 dependents and 723 COBRA).
- GBP health insurance plans cover about one of every 52 Texans.
- The self-funded ERS health plans – HealthSelectSM of Texas, Consumer Directed HealthSelect, HealthSelect Prescription Drug and HealthSelect Medicare Rx – paid \$3.13 billion in claims.
 - Participants in those plans paid \$452 million in out-of-pocket expenses, including copays, coinsurance and deductibles.
- 72,885 participants (members and dependents) are enrolled in ERS' Medicare Advantage health plans. This represents approximately 73% of the eligible Medicare population.

ERS strives to keep administrative expenses low. In HealthSelect of Texas, the largest GBP health plan, less than 3% of overall expenditures go toward administration – far less than the 11% average for large, private health plans.

TEXASAVERSM

401(k) / 457 Program

Deferred supplemental 401(k) / 457 retirement program

\$2.95 Billion in Total Assets			
401(k)	401(k) Roth`	457	457 Roth
\$2.19 billion	\$23.9 million	\$759.0 million	\$20.0 million
195,737 accounts	4,388 accounts	33,131 accounts	3,617 accounts
95,813 accounts contributing	3,030 accounts contributing	19,803 accounts contributing	2,357 accounts contributing

TEXFLEXSM

The TexFlex flexible spending account programs are authorized and regulated by the Internal Revenue Service under Section 125, for health and dependent care expenses. The program saves both the state and participants money.

- \$78.7 million contributed to TexFlex accounts by state employees.
- 51,662 health, dependent care limited and commuter accounts.
- \$504.5 million in insurance premiums redirected.
- \$132.1 million* in Federal Insurance Contributions Act (FICA) tax and Federal Income Tax savings for participants.
- \$44.6 million* in tax savings for the state (FICA).

*estimated